Quality of care declines after private equity takes over hospitals, finds nationwide analysis

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Patients are more likely to fall, get new infections, or experience other forms of harm during their stay in a hospital after it is acquired by a private equity firm, according to a new study led by researchers at Harvard Medical School.

The research, published Dec. 26 in *JAMA*, is among a handful of recent nationwide analyses of how private equity takeovers affect the quality of patient care in hospitals. The increases are seen in conditions or outcomes deemed preventable and are key measures of hospital safety and quality.

The findings come amid growing concerns about private equity's increasing role in U.S. health care, with $1 trillion invested in the past decade.

"We had previously found that private equity acquisitions led to higher charges, prices, and societal spending," said Zirui Song, associate professor of health care policy and medicine in the Blavatnik Institute and director of research in the Center for Primary Care at HMS. "Now, we're learning that there are also downstream concerns for the clinical quality of care delivered to hospital patients."

The researchers said the findings are alarming because they may reflect bottom-line incentives overshadowing patient care and safety.

"Hospital success is measured not only in dollars or the number of patients who pass through the doors, but also in lives saved, complication rates, patient satisfaction, and a number of other quality and safety metrics," said HMS research fellow Sneha Kannan, a physician in the Division of Pulmonary and Critical Care at Massachusetts General Hospital. "We need to make sure we fully understand the costs and benefits of this prominent new force in health care."

The economic repercussions of private equity acquisitions are not a new concern. Previous studies by Song and co-author Joseph Dov Bruch of the University of Chicago indicate that this high-debt, for-profit financial model of hospital ownership may also lead to increased spending and other economic implications. Many have expressed concerns about hospital bankruptcies under private equity ownership that often leave underserved populations with limited access to care. But up until now, the effects of private equity deals on patient health and quality of care have remained understudied and poorly understood.

Why private equity is different

"When health systems buy hospitals, they generally do not use borrowed money," said Song, who is also an internal medicine physician at Mass General. "In contrast, the classic private equity buyout uses a small amount of cash, but a large amount of debt."

A private equity firm raises some capital from investors and borrows the rest, putting debt on the acquired hospital with its physical assets, such as land and buildings, as collateral for the loan. The acquired hospital must then generate revenue to pay down that debt.

Private equity generates revenue by charging management fees to its investors—commonly, pension funds, endowments, and other institutions or individuals—as well as by focusing on high-revenue procedures, cost-cutting, reorganization, and financial engineering.

One argument in favor of private equity investments is that many struggling hospitals need capital and management expertise. However, most private equity buyouts are of successful operations. Private equity firms want to buy going concerns that are able to take on debt and generate revenue in the short run. These financial pressures can create perverse incentives favoring profit over patients, the researchers say.

Private equity and quality of care

For this study, the researchers examined insurance claims data for all fee-for-service Medicare hospitalizations from 2009 to 2019, totaling more than 600,000 hospitalizations at 51 private equity hospitals and more than 4 million hospitalizations at 259 similar hospitals not acquired by private equity. The hospitals not acquired by private equity served as the control group to control for other factors that may have affected outcomes.

The researchers compared how often patients experienced certain outcomes before and after the hospital was acquired by private equity. For example, they looked at how often patients fell while in the hospital or how often they developed an infection after a procedure or a surgery. The team also analyzed the makeup of the patient populations and various other outcomes such as how often patients died, how long they stayed at the hospital, and how often they ended up readmitted after leaving the hospital.

After a hospital was acquired by private equity, admitted Medicare patients had a 25% increase in hospital-acquired complications, compared with patients admitted before acquisition. Patients also had 27% more falls and 38% more bloodstream infections caused by central lines, which are temporary surgically inserted ports that allow easy intravenous access for patients receiving repeated drug infusions or other treatments.

The increase was seen despite private equity hospitals' placing 16% fewer central lines than before the buyout. All of these results were calculated while taking into account changes, trends, and patterns over the same period of time at peer hospitals not owned by private equity to isolate the differences that were due to the change in ownership.

Curiously, the study found a small drop in hospital deaths at private equity hospitals. This, the researchers said, may be due to social and demographic factors—private equity patients were younger and less disadvantaged than those at peer hospitals not owned by private equity. It may also be due to patients getting transferred more often out of private equity hospitals. When the researchers followed patients longer after discharge, the small decrease in deaths dissipated within a month after leaving the hospital.

Framework for policy solutions

Policymakers, insurance companies, and public sector bodies have grown increasingly concerned about protecting patients and societal resources from the effects of private equity transactions.

Earlier this year, Song and Christopher Cai, a HMS clinical fellow in medicine at Brigham and Women's Hospital, outlined such a policy framework in a *JAMA* viewpoint article, which included regulating fraud and abuse, increasing antitrust oversight, reducing moral hazard (such as by lowering the debt used in acquisitions), protecting against inflated prices, and transparency in reporting of private equity acquisitions.

Currently, only private equity acquisitions over $111.4 million must be reported. This threshold may capture many hospital acquisitions but leaves out most acquisitions of physician practices.

"Private equity firms have historically operated in the shadows in health care," Kannan said. "Going forward, it's important to lift the veil and increase transparency."

And both researchers and policymakers should be rigorous in their efforts to understand how private equity changes health care operations and the downstream consequences, the authors cautioned.

"Patients and providers, investors and taxpayers, employers and insurers, all have a stake in this," Song said. "Understanding what the corporatization of health care delivery means is a goal shared by many across society."

More information: Changes in Hospital Adverse Events and Patient Outcomes Associated with Private Equity Acquisition, *JAMA* (2023). DOI: 10.1001/jama.2023.23147. jamanetwork.com/journals/jama/ … 1001/jama.2023.23147

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